



### **QUARTERLY MEETING**

Wednesday, April 29<sup>th</sup>, 2009  
Stanford Mansion Ballroom (Lower Level)  
800 N Street  
Sacramento, CA 95814  
10:00 a.m. – 12:30 p.m.

### **DRAFT MEETING MINUTES**

A meeting of the California Commission for Economic Development was held on April 29, 2009.

#### **Commission Members Present**

Hector Barreto, Demos Vardiabasis, Thomas A. Nassif, Lt. Governor John Garamendi, Forescee Hogan-Rowles, Virginia Chang Kiraly, Senator Ron S. Calderon, Assembly Member Manuel Perez

#### **Commission Members Not Present**

Omar Benjamin, David Crane, Daniel Curtin, Senator Bob Dutton, Assembly Member Isadore Hall, Senator Gloria Negrete McLeod, Assembly Member Lori Saldaña, Aubry Stone

#### **Others in Attendance**

CED staff: Executive Director Richard Baum, Deputy Director Michele Gault, Lt. Governor's chief of staff Mona Pasquil, Consul General of México in Sacramento Alejandra Bologna, Peter Weber

A quorum was present.

#### **I. Welcome and Introductions**

Lt. Governor Garamendi called the meeting to order and invited Commissioners to briefly introduce themselves. He noted a change in the agenda to move the Consul General's presentation as the first item.

#### **II. Special Presentations**

The Lt. Governor introduced Alejandra Bologna, Consul General of México in Sacramento.

##### **a. Alejandra Bologna, Consul General to Mexico**

##### **i. NAFTA (North American Free Trade Agreement)**

Ms. Bologna addressed the importance of NAFTA. She emphasized it as an agent for growth in México, the U.S., and California, stating that it has removed trade barriers, promoted economic growth, stimulated investment, and created new jobs. The agreement has been the springboard for increased trade in a number of sectors.

##### **ii. México-California Relations**

Ms. Bologna noted that México is the largest market for California with \$20.5 billion in exports. Tourism, transaction fees, remittances, and exports are substantial and stimulate confidence.

##### **iii. Status of the Mexican Economy**

Ms. Bologna discussed the current recession and its impact on the Mexican economy. The Mexican government has introduced policies to foster stability in order to continue attracting much-needed foreign investment.

She stated that the biggest challenges to the economy are the significant slowdown of goods and services, limits to access to international finance, reduced oil prices and direct investment, financial losses, terrorism, and a decrease in remittances.

The Mexican government has undertaken various actions to soften the impact of the recession. They created a support program, launched in March 2008, that includes 5 measures to promote economic growth, development, investment, and financing. They also launched a national strategy against poverty.

México is using available economic policy instruments to overcome adversities and instability. On April 1, 2009, México announced a credit line of \$47 billion with the IMF. This is a precautionary arrangement against the global crisis. This will lead to an increase in investors' confidence and the request is being considered by the international executive board that handles the Mexican economy.

#### **iv. México's efforts against Drug Trafficking**

Ms. Bologna reported that President Calderon launched an offensive against drug traffickers and organized crime. She stated that stopping criminal organizations is the nation's top priority.

#### **v. Swine Flu in México**

México has taken operations to stem the spread of the flu. Ms. Bologna noted that the government immediately responded to protect citizens and tourists. Schools in México City were closed, followed by a nationwide shut-down of all academic institutions and a reduction in public events. President Calderon has taken a lead in this issue, and the Ministry of Health has taken aggressive action to deal with the outbreak.

The administration has used this event to apply for new resolutions and resources, including the use of all medical and social assistance, and services in the public/private sectors. In addition, the Mexican army has distributed 6 million masks to the public.

México has been in contact and cooperating with the U.S., Canada, the WHO (World Health Organization) and other health partners around the world.

Information since yesterday shows that there are seven cases confirmed of swine flu. There are reportedly other individuals who passed away due to a respiratory illness, but it has not been confirmed whether it is related to the swine flu.

#### **Discussion**

The Lt. Governor thanked the Consul General for her testimony regarding trade relations between California and México. He added that the relationship was one of the cornerstone foundations to both economies. The Lt. Governor then opened the floor for questions.

Commissioner Hector Barreto spoke of a program that he helped put together to encourage small business ventures, and asked the Consul General what México is doing to fortify its own small businesses. He asked what recommendations she would give to the Commission on how California and México can work together to create more opportunities for small -- especially Hispanic—businesses in California.

Consul General Bologna said that México is taking measures to continue support of small- to medium-sized businesses. She expressed interest in opportunities for cooperation, trade, and investment between California and México, and emphasized the environmental arena as a potential area for economic development.

Commissioner Forescee Hogan-Rowles referred back to the fact that the Mexican army had distributed six million masks and acknowledged that public health and business are intertwined. She expressed her concern that because of the existence of many small villages in México, the information about the swine flu would not reach the entire population. She wanted to know what the government was doing to reach out to people in outlying areas.

Bologna assured Ms. Hogan-Rowles that the information has been spread around the country, and that the swine flu is concentrated mainly in the capital city region and some surrounding areas. The information has been disseminated through televised media. In rural areas, people have access to information they need. The public health system has clinics all around the country and they are prepared to provide the information that the population needs.

Senator Ron Calderon asked what México is doing to assist small businesses and whether it is considering tax credits to stimulate business.

The Consul General informed Senator Calderon that there are different programs in various regions, dependent upon the various kinds of investment.

The Lt. Governor thanked Ms. Bologna for her testimony and willingness to work with the Commission. The Lt. Governor informed the Commission that Ms. Bologna was leaving for a new post in Milan, Italy. The Lt. Governor then presented her with a commendation honoring her five years of work in Sacramento.

Assembly Member Manuel Perez, recently appointed to the CED, introduced himself. He provided some background information on the Assembly Stimulus, Economic Recovery, and Jobs (SERJ) Task Force, which he chairs. He stated that the task force is seeking input on a draft recovery strategy document.

### **III. Executive Director's Report**

Executive Director Richard Baum observed that the state budget challenges have impacted the CED and other agencies. While fully intending to go forward with all CED activities, Mr. Baum mentioned that it has been focusing on consolidating operations, and he announced his return to the private sector at the end of May. He noted that Michele Gault will be the primary contact for the Commission.

Mr. Baum remarked that the focus for the rest of the year will be to work with the Legislature, committees, key state agencies and the Governor's office to give focus to specific industry and community needs. The CED will work with the advisory committees to facilitate bringing industry leadership together with key state decision-makers (i.e. legislators and committee consultants) to identify and offer solutions specifically with respect to current economic challenges.

The Commission issued its annual report, which legislative members and others received. Mr. Baum reported that the biotech advisory committee meeting was successful, and brought up the agricultural advisory committee meeting, which Tom Nassif will touch on later on in this meeting.

#### **IV. Meeting Minutes Approval**

The Lt. Governor asked the Commission to approve the minutes from the two previous meetings. A motion was made and seconded and the minutes were approved.

#### **V. Special Presentation**

The Lt. Governor introduced Peter Weber, a retired Fortune 500 company executive and civic leader in the Fresno area. Mr. Weber briefly outlined his personal, professional, and educational history. He thanked the Lt. Governor for the opportunity to present his report.

##### **a. “Growing California’s Regional Economies: An Economic Growth Strategy for the State of California” by Peter Weber**

Mr. Weber was asked by California Forward to write a report on regional economic development. Since 2002, he noted, California has gone from the 5<sup>th</sup> to the 8<sup>th</sup> largest economy in the world. We find ourselves in a significant economic crisis and the principal political debate that is taking place in California is how to allocate the limited and declining revenues that the state has and if we should ask the taxpayers for more revenues.

Mr. Weber explained CA Forward’s major initiatives to advance governance reform:

1. Implementation of redistricting as set forth by Prop 11
2. Budget reforms which are currently circulating through the legislature and Governor’s office
3. Fiscal reform: plan to release recommendations on June 15
4. Regional governance and growth of CA regional economies

These issues cannot be addressed within the boundaries of local jurisdictions. They are not addressed effectively at the state level because there are too many issues that need different treatment at different levels. These issues must be addressed regionally: Fresno can’t address air quality without tying together the people in the San Joaquin Valley; and there are physical realities that dictate how to approach certain challenges. The labor force does not cut off when one goes from Fresno to Madera: it is one labor market.

The problem is that there is no regional economic governance in CA. Our problems tend to be global, regional, and local. But our political systems are state, county, and local municipalities. This is a misalignment. He is not proposing a new level of government, but a far more effective means of networking across governments: horizontally across counties, and vertically from municipalities to counties to state and federal government; and there is a need to network between the public and private sectors.

The way in which California funds programs creates a gravitational pull towards silo-based government. Even in the face of attempts to create multi-faceted forces, the pull remains on silo-based government.

CA’s future depends on healthy regional economies. “Healthy economy” is defined by economic parity, environmental quality and social equity. It is untenable to advance one area at the expense of the others. With that in mind, it is the economic leg that fuels progress in the other two areas. He asserted that effective clustering fuels regional economic prosperity that affects public-private partnerships that in turn fuel successful industry clusters.

He mentioned Akron, Ohio as an example of a successful industry cluster, in the polymer industry. Once a center of rubber manufacturing, Akron was losing competitiveness in the face

of overseas competitors. Universities, business leaders and others in the community worked together to create a solution.

Mr. Weber's proposal is to stimulate, at the state level, the creation of a network of regional partnerships that would encourage a network of government, public-private partnerships, and catalyze the development of plans that create a common vision for a region that defines strategies and actions and aligns resources behind the implementation of those strategies. Our entire workforce strategy has to be turned on its head to be much more effective and supportive of industry clusters.

Mr. Weber stressed that he does not want to see another layer of government, and that this should be a voluntary program. The criteria for regional partnerships ought to be self-defined regions based on concentration of economic activity, shared physical realities, and historical political alignments. We cannot ignore alignments that exist already. Regional partnerships should tackle issues on a geographic scale that address the magnitude of the challenge. In his view, they need to be multi-government, multi-sector partnerships across counties; and the private sector has to be a major player in these partnerships.

The role of state government is to identify regional economic competitiveness as the overarching economic development strategy for California. The second role of state government is for the Governor to direct the cabinet officers and agencies to advance regional competitiveness and participate in the establishment of a private-public organization—which Mr. Weber calls the California Partnership for Regional Economies—which acts as a catalyst for regional partnerships. It would help regions do what has been started in the San Joaquin Valley. The state government should create an incentive-based scheme to catalyze the formation and support the ongoing development of California regional partnerships. Mr. Weber adds that he is not suggesting a lot of money, but that we should have seed grants to provide opportunities for regions to come together and plan. After 4 years of a start-up grant, regional economies should be self-sustaining based on incremental taxes that they generate as a result of accelerated growth. It would be helpful to provide special incentives in terms of access to state funding for regions that have come together and are approaching problems in efficient ways.

Mr. Weber then discussed ROI (return on investment). The Legislative Analyst's Office has indicated that we will see a decline in growth and by 2015 we will have seen -2.9% in GDP growth. If by growing our regional economies, we could on average increase that by 1.5 percentage points (4.4% by 2014) and sustain it, by 2020 we would have generated \$850 billion dollars more in top-line revenues. The additional tax revenues would generate \$150-\$250 billion. Mr. Weber hopes that we could have a stronger economic engine than the one we entered the recession with. This is an opportunity to prepare ourselves to have California come charging out with a much stronger economy.

He thanked the Commission.

### **Discussion**

The Lt. Governor thanked Peter Weber for his presentation, and acknowledged that the proposal was right on point. He opened the floor for questions and discussion.

Senator Calderon asked how to network. He said that the vehicle to network already exists, and there is no reason why those associations could not appoint two or three members in each county and form this network so that everyone is working together competitively.

Mr. Weber agreed, to the extent that those vehicles exist, it is a great place to start. However, more private sector involvement is necessary. He also thinks that the current mechanisms for cooperation focus on a limited set of issues. Mr. Weber then stated that for the California Partnership for the San Joaquin Valley, ten groups in the organization deal with separate issues and all communicate in order to work together and move away from silo-based relationships.

Sen. Calderon asked about the increase and sustainability in GDP growth to stimulate \$850 billion dollars. He noted that it was an ambitious estimate. Mr. Weber again brought up the example of the 4.4% GDP growth in Akron as reasoning for the ambitious numbers. Sen. Calderon asked how this would translate to revenues.

Mr. Weber answered by saying that the cumulative impact is a function of the mix of goods and services, so depending on the mix it would be an impact of \$150-250 billion in additional tax revenues. Sen. Calderon asked Mr. Weber to estimate the revenue tax base in the year 2020, and Mr. Weber estimated \$40-45 billion in additional cuts.

Commissioner Virginia Chang Kiraly posed a question regarding the regional idea. She mentioned that BayBio sits on the CED's biotech advisory committee as a representative of private companies. Her issues included how to work with government effectively to meet and exceed goals.

Mr. Weber stated that working regionally on industry clusters of significance needs to be state policy. While the California Partnership for the San Joaquin Valley operates under an executive order, Mr. Weber stressed that its methods should be used as official government policy across the state, with the cabinet officers and their agencies dedicated to advancing regional competitiveness. He points out that while cooperation with the state government is difficult to establish, creation of county-to-county and private sector collaboration also has its challenges.

The Lt. Governor called the Commission to address the next issue - CED policy outlook and evaluation of objectives. He believed that they could look at what the CED will do in the future in the context of the current discussion with Peter Weber.

A Commissioner mentioned that she has tried informal regional strategies that have fallen apart. She asked Mr. Weber what he thinks the biggest challenge is for Los Angeles in defining its regional economies.

Mr. Weber responded by saying that the CA Economic Strategy Panel has defined nine regions. One region includes Los Angeles, Orange County, Ventura, San Bernardino, Imperial County, and he considers it too large. One has to aggregate something that makes sense locally.

Mr. Baum asked what will happen next for regional economies and the development of regions if the ballot propositions fail.

Mr. Weber says he is concerned about that impact. In the Central Valley, the challenges are the drought, the economic recession and the lack of a long-term water plan. If the ballot initiatives go down, all of the attention in Sacramento will be focused on how to fix that problem rather than concentrating on developing regional economies. He fears that there is a significant price to be paid if the ballot initiatives go down.

Commissioner Hector Barreto mentioned that the economic crisis could hit its peak by 2015, worsening inflation and unemployment. He asked how the idea of regional economies in

California would make the state more competitive. Mr. Weber noted that irrespective of what is happening at the macroeconomic level, the state will be much better off with the establishment of regional economies.

Another commissioner noted that many businesses consider California to be too hostile of a business environment. He asked what sort of incentives or aid we can provide in order to attract and restore the hope of businesses. Mr. Weber validated his point. The proposal of regional economies will give hope to business, together with reform with the fiscal, budgetary, and transparency issues in Sacramento.

The commissioner addressed regional economies and his concern on equity. He asked what the lessons learned so far are, and how we can use those lessons as examples to implement regional models to look at equity issues.

Mr. Weber illustrated workforce development. The Workforce Investment Act brings money to California, but is not addressing the lack of preparation that K-12 students receive for real jobs. The WIBs can only address 5-13% of second-chance job seekers.

A commissioner asked about Mr. Weber's thoughts on the green collar economy and its potential for the future. Mr. Weber voiced his support for all of California to adopt the idea of a green economy in their business practices.

Senator Calderon addressed the goals of California Forward. He stressed that when looking at reform, one must look at the issues that we have most control over. Realistically, the outcome of the special election is not favorable, and the two tools that will provide the state with a continuous source of revenue are stimulus money and tax credit packages. We should also look at regional economic growth and revenue generation without depending on a tax base. He closed by saying that it should state in the Commission's message clearly to the governor that as an economic development resource, to please continue and expand the stimulus programs and tax credits together with the green economy.

The Lt. Governor thanked Senator Calderon for his comments and concluded that the Senator appeared to make a proposal to let the tax credit and stimulus programs continue. A motion was made and seconded.

Lt. Governor thanked Mr. Weber for his presentation. He said that one of the issues in the proposal was to create a sustainable economy and focus on workforce development. He wanted to raise the question among the commission on how to include regional growth with sustainability in the face of the various interpretations of "green" that exist. He would like Rick Baum and Michele Gault to take the CED's mission statement and reorient it to align with regional growth.

A Commissioner acknowledged that the problem with state-wide allocation of regions is that it is not parallel with local perceptions of what the region should encompass.

Mr. Weber added that the regions need to be reality based. He suggested that the state ought to put together small seed grants to be matched and to ask the people of California to put forward proposals for regions. They will have to identify commonalities and include the public and private sectors.

The Lt. Governor asked the Commission what direction they would like to go in for the next two years. He announced that he will present a follow-up on Sen. Calderon's motion and a modification of the mission statement.

Commission Vice Chair Tom Nassif requested an analysis of tax credits in order to truly support Senator Calderon's motion. The Commission decided to wait to vote on the motion until this information could be studied.

The Lt. Governor provided an update on the state budget situation and stated that his office budget has been cut by two-thirds. He said that in order for the CED to continue and be successful, it would need to partner with the Legislature and its relevant committees. Mr. Baum noted that the CED is working to create relationships between the advisory committees and legislative committees.

The Lt. Governor invited the advisory committee chairpersons to provide updates. Commissioner Demos Vardiabasis, chair of the entertainment & tourism committee, said that the committee is working on a study of the impact of the motion picture industry on the state. Commissioner Chang Kiraly chairs the biotechnology committee and provided a briefing on the committee meeting that took place on April 27 in Sacramento. Commission vice chair Tom Nassif chairs the agriculture committee and noted that the committee was holding an ag communications summit in Sacramento the following day.

Mr. Baum presented two names for consideration as advisory committee members: Ron Ford, for the entertainment and tourism committee, and Karyl Matsumoto, for the biotechnology committee. A motion was made, seconded, and both nominees were approved.

The Lt. Governor adjourned the meeting at 12:35 p.m.

Meeting minutes submitted by Michele Gault on June 3, 2009.